

COUNTY OF JACKSON, MICHIGAN

COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. A separate report dated May 27, 2005 contains our report on the County's internal control structure. This memorandum does not affect our report dated May 27, 2005, on the financial statements of Jackson County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these matters with County management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the County in implementing the recommendations.

Resource Recovery Facility

Working Capital and Cash Flow

Even though the Resource Recovery Facility has been profitable in the last few years, working capital (excess of current assets over current liabilities) remains at a negative level of approximately \$2,268,000. Also, the cash balance was only \$5,866 at December 31, 2004. This has caused payments to vendors to be delayed.

We recommend that the County explore ways to increase the working capital of the facility through tipping fee rate changes or other options that will allow the Facility to pay vendor bills in a timely manner. Past financial operating results should be compared with the projections report that was prepared in 2000 for years 2000 to 2027 to determine if the Facility is on track, or if other options should be explored in order to have the Facility continue as a going concern. Also, the useful lives and book value of the building components and large equipment item should be analyzed, and if necessary, adjusted to reflect remaining useful lives.

Inventory

The inventory balance at December 31, 2004 was \$1,267,441. This balance has grown steadily from a balance of \$726,281 in 1995. This inventory consists of replacement parts and various maintenance stock items. This build up in inventory has caused a drain on cash over these past ten years. The inventory balance is more than four times the annual maintenance expense budget in 2004.

The inventory level should be looked at to determine that individual stock levels are not excessive. At the same time, an analysis should be made by the Facility operator of any inventory obsolescence, and if there is, a reserve for obsolescence should be recorded in the fund as a contra inventory account. Also, we noted that the inventory is performed at year-end by plant personnel, which disrupts their regular duties at the time of the year-end inventory. In order to avoid disruptions in the workflow at the end of the year, we recommend that the operating firm perform cycle counts of inventory throughout the year, where the counts can be done on the various inventory types, and adjustments made, at non-busy times.

COUNTY OF JACKSON, MICHIGAN

COMMENTS AND RECOMMENDATIONS (Continued)

For The Year Ended December 31, 2004

Payroll Hour Tracking System

While auditing compensated absences accounts, we noted that several employees had negative hours accrued at December 31, 2004 for holiday, Comp and PTO time. These balances were caused generally by errors in positing the leave time taken to the wrong category of leave time.

In the future, leave time reports should be analyzed and scanned for reasonableness after every bi-weekly payroll. Any negative balances should be immediately investigated, and appropriate adjustments made. Under no circumstances should the payroll system allow an employee to take leave without an available positive balance.

It is our understanding that this problem has been corrected in 2005.

Bank Reconciliations

The pooled general bank account reconciliation is performed by staff in the finance department, who also have access to the County general ledger system. Presently, there are no initials of the person performing the reconciliation, nor is there a review of the completed reconciliation by a person independent of the Finance Department.

We recommend that the preparer of the bank reconciliations initial and date the summary sheet form, and that another individual review the reconciliation for completeness in order to enhance the internal controls in this area. We suggest that the Administrator/Controller appoint an appropriate individual to perform this reviewing function.

Sheriff Cash Receipt Processes

We reviewed cash handling procedures in the Sheriff's office, and found that they were generally sound. However, presently there is no documentation or initial indicating that the Cash receipt batch proof agrees to the electronic cash register summary of cash total (Z-2 total).

In order to enhance the internal controls in this area, we recommend that a person other than the cashier initial each day's cash register summary that it agrees to the Cash receipt batch proof listing. We suggest that the Undersheriff be involved in this process.

It is our understanding that this condition has been corrected in 2005.

COUNTY OF JACKSON, MICHIGAN

COMMENTS AND RECOMMENDATIONS (Concluded)

For The Year Ended December 31, 2004

Capital Assets

Over the past two years, the County has updated its capital asset records for the general government (governmental activities), and has extensive detail records supporting each category of capital assets. Presently, there is no tagging of individual capital equipment items.

The County should consider identifying equipment items with numerical tags indicating the equipment is the property of Jackson County. This may be a more important consideration as the level of Federal Homeland Security grants is increasing, and many of these grants require equipment records that are controlled by the tagging process.

Surprise Cash Counts

Several County Departments handle cash, and remit the receipts either daily or periodically to a depository account or the County Treasurer.

For these decentralized departments, we recommend that the County consider implementing "surprise cash counts" once or twice during the fiscal year in order to determine that County receipt policies are being adhered to, and that the cash counted agrees to underlying receipt records. We suggest that the Administrator/Controller appoint an appropriate individual (s) to perform these surprise cash counts.

Budget Violations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets for the General Fund and Special Revenue Funds were adopted on an activity basis. Noted in Note II-B of the Comprehensive Annual Financial Report were several instances of expenditures exceeding budgets.

In summary, all funds categorized as General and Special Revenue Funds in the County's Comprehensive Annual Financial Report should be budgeted in accordance with the general appropriations measure, and should be amended accordingly when it becomes apparent that actual expenditures may exceed budgeted amounts, in order to be in compliance with P.A. 621. As part of this process, the County should review its purchasing system and procedures, and consider requiring all departments to use the encumbrance system. Special attention should be focused on Departments/Funds that consistently exceed their budget year after year.

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